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INTRODUCTION

The Office of Internal Audit performed an audit of the Warren/Conner District, Wayne County FIA for the period October 1, 1999 through January 28, 2000. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. The Warren/Conner District had 81 full time equated positions (FTE's) at the time of our review. The Warren/Conner District provided assistance to an average 10,434 recipients per month during FY 1999, with total assistance payments of \$17,505,198 during that year.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at the Warren/Conner District, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts	Cash Disbursements
Accounts Receivable	General Ledger
Modified Accrual Basis Balance Sheet	Safe and Controlled Documents
Medical Transportation	Child Well Being
State Emergency Relief (SER)	Employment Support Services
Client Processing	CIS/ASSIST
IRS Information Security	Payroll and Timekeeping
Procurement Card	Telephone Usage

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Warren/Conner District internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. Our findings and recommendations follow.

DISTRICT RESPONSE

The management of the Warren/Conner District has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated March 1, 2000 that they are in general agreement with the report.

FINDINGS AND RECOMMENDATIONS

Cash Receipts

Mail Opening

1. The Warren/Conner District had only one person opening the mail. Accounting Manual Item 430 requires that two people work together to open the mail. Having two people opening the mail helps to ensure that cash and negotiable instruments received in the mail are not lost or stolen prior to being recorded at the local office.

WE RECOMMEND that the Warren/Conner District have two people work together to open the mail.

FIA-61 Log Reconciliation

2. The Warren/Conner District did not perform a weekly reconciliation of checks/warrants on hand to the open items on the Record and Disposition of Checks/Warrants (FIA-61), as required by Accounting Manual Item 460. A weekly reconciliation is necessary for timely

detection of any warrants/checks that are lost or stolen, and to ensure that all checks/warrants on hand are properly recorded on the FIA-61. We also noted that the posting of disposition information to the FIA-61 was not up-to-date. Keeping the posting up to date facilitates the reconciliation process.

WE RECOMMEND that the Warren/Conner District perform a weekly reconciliation of checks/warrants on hand to the FIA-61, and keep posting of disposition information on the FIA-61 up-to-date.

Accounts Receivable

Separation of Duties - Accounts Receivable

3. The Warren/Conner District was not separating duties related to accounts receivable, and there was no independent review of the work. Accounting Manual Item 480 requires that the duties of collecting, posting, and reconciling accounts receivable be separated, or that the accounts receivable function be reviewed by an independent supervisor who is not involved in this function. Separating accounts receivable duties or having an independent review of the work helps to ensure the accuracy of the accounts receivable.

WE RECOMMEND that the Warren/Conner District either separate the accounts receivable duties or have an independent supervisor perform a review of the process.

Follow-Up on Potential Accounts Receivable

4. The Warren/Conner District did not do periodic follow-up with landlords and clients to determine if the client had moved or received an asset, as required by Accounting Manual Item 480. Periodic follow-up helps to identify cases where an amount is due to the State.

WE RECOMMEND that the Warren/Conner District periodically follow-up on its potential accounts receivable to determine if amounts are owing to the State.

Reconciliation of the Automated Recoupment of Accounts Receivable

5. The Warren/Conner District did not reconcile the GH-280, GH-370 and the GH-380 reports on a monthly basis as required by Accounting Manual Item 481. Reconciliation of these reports ensures that all moneys collected are accounted for and the clients account balances are accurate.

WE RECOMMEND that the Warren/Conner District reconcile the Automated Recoupment Reports.

General Ledger

No Findings in this area.

Safe and Controlled Documents

Controlled Document Log

6. The Warren/Conner District did not properly control blank documents. We noted that the district did not record the proper balance on hand for the LOAAS and LASR check supply, and did not maintain separate logs for each type of check. The physical inventory count differed from the inventory records for Temporary I.D. Cards (FIA-183A). Proper use of the Controlled Document Log (FIA-4070) and preparation of the Monthly Controlled Document Inventory and Reconciliation (FIA-4351) helps to ensure that all negotiables are accounted for, as required by Accounting Manual Item 403. Use of the Controlled Document Log helps to ensure that loss, theft, or misuse of controlled documents would be detected on a timely basis.

WE RECOMMEND that the Warren/Conner District use the Controlled Document Log, one for the LOAAS checks and a separate one for the LASR checks, and properly record the usage and record the balance on hand.

Controlled Document Reconciliation

7. The Warren/Conner District did not reconcile the inventory records to a physical count in preparing the Monthly Controlled Document Inventory and Reconciliation Report (FIA-4351), as required by Accounting Manual Item 403. Taking a physical inventory of all negotiable documents will ensure the accuracy of items on hand.

WE RECOMMEND that the Warren/Conner District perform a physical inventory and reconcile it to the inventory records to prepare the FIA-4351.

Medical Transportation

No Findings in this area.

State Emergency Relief

No Findings in this area.

Employment Support Services

No Findings in this area.

Client Processing

No Findings in this area.

CIS/ASSIST

MA-010 Reconciliation

8. The Warren/Conner District did not reconcile a sample of case openings and warrant re-writes listed on the Transaction Control Listing (MA-010) to the case documentation and eligibility as recommended by the Primary Internal Control Criteria for FIA Local/District Office Operations. A sample reconciliation of openings and reopenings provides assurance that only their assigned workers opened the cases.

WE RECOMMEND that the Warren/Conner District reconcile case openings and warrant re-writes on the MA-010 Report to case file documentation and eligibility.

CIS/ASSIST Security Agreements

9. The Warren/Conner District did not have accurate, up-to-date CIS Security Agreements (FIA-3974A) on file for 11 out of 78 employees who access the Client Information System (CIS), as required by L-Letter 97-063. For thirty five of the 78 agreements we reviewed, the status code indicated on the FIA-3974A did not agree with the current status code listed on the Operator Identification Report (PF-011). Also, 10 FIA-3974's reviewed did not have the supervisor's signature on the form. The ASSIST Security Agreements and Enrollment Profile (FIA-3720, FIA-3721) were not completed for 32 and 69 employees respectively, who had access to ASSIST. According to L-Letter 97-156 employees who have access to the ASSIST system are to have current, complete ASSIST Security Agreements and Profiles on file.

WE RECOMMEND that the Warren/Conner District ensure that all employees who have access to the CIS system have accurate, complete, up-to-date CIS Security Agreements on file.

WE ALSO RECOMMEND that the Warren/Conner District ensure that all employees who have access to the ASSIST system have accurate and complete ASSIST Security Agreements and Enrollment Profiles on file.

Security Officers Log Report (PD-180)

10. The Warren/Conner District did not reconcile the Security Officers Log Report (PD-180) to the Security Agreements (FIA-3974A's). L-Letter L-97-063 requires the reconciler to review this report to a signed Security Agreement to ensure that all changes are accurate. In addition, the same person who is responsible for reconciling the PD-180 log also maintains the CIS Security Agreements. For internal control purposes the reconciler must not be the CIS Security Coordinator and must not have file maintenance capability on CIS.

WE RECOMMEND that the Warren/Conner District have an independent person reconcile the PD-180 report to revised Security Agreements.

CIS/ASSIST Status Codes

11. One bookkeeper at the Warren/Conner District had a status code of FLM on the Client Information System (CIS). This status code would allow the fiscal clerk to make changes to client cases and process payments to those cases.

WE RECOMMEND that the Warren/Conner District change the bookkeeper to inquiry only status on CIS.

MA-010 Reconciliation - Supplemental Payments

12. The Warren/Conner District did not reconcile a 100% of the Supplemental Payments listed on the Supplemental Payments Listing (SP-270) to the Supplemental Payment Authorization and other supporting documentation, as recommended by the Primary

Internal Control Criteria for FIA Local/District Office Operations. We found a folder of unreconciled FIA-13' and SP-270's. Reconciling 100% of the Supplemental Payments helps to ensure that the payments are accurate and appropriate.

WE RECOMMEND that the Warren/Conner District reconcile 100% of the Supplemental Payments on the SP-270 report to the FIA-13's and other supporting documentation.

IRS Information Security

Knowledge of IRS Security Procedures

13. Mail room staff, Family Independence Specialists (FIS), and Eligibility Specialists (ES) at the Warren/Conner District were unaware of the proper procedures to follow for confidential information received from the IRS. Program Administrative Manual (PAM) Item 803 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Staff understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that the Warren/Conner District familiarize staff with all aspects of the confidentiality laws for information received from the IRS.

Payroll and Timekeeping

Payroll Record and Retention

14. The Warren/Conner District did not reconcile the turnaround payroll report (HR-332B) to the certified payroll copy. The Primary Internal Control Criteria for Local/District Office Operations recommends that someone other than the timekeeper reconcile the turnaround payroll report to the time input the previous week as certified on the HR-332B.

WE RECOMMEND that the Warren/Conner District have the someone other than the timekeeper reconcile the turnaround HR-332A(B) with the certified copy of the payroll.

Procurement Card

Procurement Card Usage

15. The Warren/Conner District did not have anyone complete the verification of goods received and date received columns on the Transaction Log for the months tested. Having a third party initial and date the proper columns to verify that goods ordered were received provides an audit trail for goods and services received and paid for. In addition, the Warren/Conner District was not attaching original documentation for purchases to the Transaction Log. Attaching original documentation to the Biweekly Transaction Log will assist the supervisor in reconciling the transactions and ensuring that purchases are appropriate.

WE RECOMMEND that the Warren/Conner District attach supporting documentation for purchase to the Procurement Card Log, and have a third party initial and date the Procurement Card Log to verify goods and services purchased were received.

Child Well Being

No Findings in this area.

